

**LYON COUNTY ECONOMIC
DEVELOPMENT CONSORTIUM**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

DECEMBER 31, 2009

Table of Contents

	<u>Page</u>
Officials/Members	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-8
Basic Financial Statements:	<u>Exhibit</u> 9
Government-Wide Financial Statements:	
Statement of Net Assets	A 10
Statement of Activities	B 11
Governmental Fund Financial Statements:	
Balance Sheet	C 12
Reconciliation of the Balance Sheet – Governmental Funds to the	
Statement of Net Assets	D 13
Statement of Revenues, Expenditures and Changes in	
Fund Balances	E 14
Reconciliation of the Statement of Revenues, Expenditures and Changes	
in Fund Balances – Governmental Funds to the Statement of Activities	F 15
Notes to Financial Statements	16-25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Schedule of Findings	28-36
Staff	37

LYON COUNTY ECONOMIC DEVELOPMENT CONSORTIUM

OFFICIALS/MEMBERS

CALENDAR YEAR 2009

<u>Name</u>	<u>Title</u>	<u>Representing</u>	<u>Term</u>
Leonard Vanden Bosch	President	City of Larchwood	Calendar Year 2009
Dennis Thielvoldt	Vice-President	City of Alvord	Calendar Year 2009
Steve Michaels	Member	Lyon County	Calendar Year 2009
Robert Gerber	Member	City of Lester	Calendar Year 2009
Jerry Nichols	Member	City of George	Calendar Year 2009
Joe Vander Zee	Member	City of Rock Rapids	Calendar Year 2009
Steve Wells	Secretary/Treasurer & Financial/Loan Advisor	Appointed	Calendar Year 2009

*The Cities of Doon, Inwood and Little Rock did not appoint a representative to the Consortium in calendar year 2009.

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
Email : ssdnrr@hickorytech.net

Independent Auditor's Report

To the Members/Officials of the Lyon County Economic Development Consortium:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lyon County Economic Development Consortium (LCEDC), as of and for the calendar year ended December 31, 2009, which collectively comprise the Consortium's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lyon County Economic Development Consortium's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lyon County Economic Development Consortium at December 31, 2009, and the respective changes in financial position for the calendar year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2011 on our consideration of the Lyon County Economic Development Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

May 16, 2011

Lyon County Economic Development Consortium Management's Discussion & Analysis

Lyon County Economic Development Consortium provides this Management's Discussion and Analysis of its annual calendar year financial statements. This narrative overview and analysis of the financial activities is for the calendar year ended December 31, 2009. We encourage readers to consider this information in conjunction with the Consortium's financial statements, which follow.

2009 Financial Highlights

- Governmental Funds interest on notes receivables revenues increased by 34.4% or \$5,104 from calendar year 2008 to calendar year 2009. The interest on notes receivables revenues increased from \$14,837 to \$19,941.
- Governmental Funds expenditures decreased by 52.3% or \$28,195 from calendar year 2008 to calendar year 2009. The Governmental Funds expenditures decreased from \$53,877 to \$25,682. The main decrease was due to uncollectible notes receivable expense of \$29,438 in 2008 but none in 2009.
- The total Governmental Funds net assets decreased by 0.7% or \$3,661 from December 31, 2008 to December 31, 2009. The Governmental Funds net assets decreased from \$496,286 to \$492,625.
- The total governmental activities net assets increased 4.7% or \$10,782 from December 31, 2008 to December 31, 2009. The governmental activities net assets decreased from \$230,222 to \$241,004.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Consortium's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the Consortium as a whole and present an overall view of the Consortium's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Lyon County Economic Development Consortium's operations in more detail than the government-wide statements by providing information about the funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the Consortium's Financial Activities

Government-Wide Financial Statements

One of the most important questions asked about the Consortium's finances is "Is the Consortium as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Consortium's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Consortium's net assets may serve as a useful indicator of whether the financial position of the Consortium is improving or deteriorating.

The Statement of Activities presents information showing how the Consortium's net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Consortium's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include loan programs and administration and general. Investment earnings currently finance most of these activities. The Consortium has no business type activities.

Fund Financial Statements

The Consortium has one kind of funds (which are separated into two funds):

- 1) Governmental Funds account for the Consortium's basic services. These focus on how money flows into and out of these funds, and the balances left at year-end that are available for spending. The Governmental Funds include: 1) the General Fund and 2) the Special Revenue Fund (Intermediary Relending Program Revolving Fund). These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund financial statements provide a detailed, short-term view of the Consortium's general governmental operations and the basic services it provides. Governmental Fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Consortium's program.

The required financial statements for Governmental Funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental activities from a year ago.

Net Assets of Governmental Activities

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Current Assets	\$ 158,207	\$ 155,514
Notes Receivable	337,254	341,960
Total Assets	<u>495,461</u>	<u>497,474</u>
Other Liabilities	19,093	3,068
Long-Term Debt Outstanding	235,364	264,184
Total Liabilities	<u>254,457</u>	<u>267,252</u>
Net Assets:		
Restricted	14,594	10,401
Unrestricted	<u>226,410</u>	<u>219,821</u>
Total Net Assets	<u>\$ 241,004</u>	<u>\$ 230,222</u>

Net assets of the Lyon County Economic Development Consortium's governmental activities increased in calendar year 2009 by \$10,782, due mainly to increased loan activity and no bad debt write offs of notes receivables. Restricted net assets represent resources that are subject to external restrictions (Intermediary Relending Program Revolving Purposes). Unrestricted net assets are used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements.

Changes in Net Assets of Governmental Activities

	<u>Year Ended December 31, 2009</u>	<u>Year Ended December 31, 2008</u>
Revenues:		
Program Revenues:		
Charges for Service	\$ 1,350	\$ 1,350
General Revenues:		
Miscellaneous	0	49
Unrestricted Investment Earnings	20,672	15,951
Total Revenues	<u>22,022</u>	<u>17,350</u>
Program Expenses:		
Note Issuance Fees	1,050	700
Administration & General	7,652	6,759
Interest on Long-Term Debt	2,538	2,681
Uncollectible Notes Receivable Expense	0	29,438
Total Expenses	<u>11,240</u>	<u>39,578</u>

Increase (Decrease) in Net Assets	10,782	(22,228)
Net Assets Beginning of Year	<u>230,222</u>	<u>252,450</u>
Net Assets End of Year	<u>\$ 241,004</u>	<u>\$ 230,222</u>

Expenses for calendar year 2009 are significantly different than calendar year 2008 mainly due to the reduction of uncollectible notes receivable expense.

Individual Major Fund Analysis

The Lyon County Economic Development Consortium uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

General Fund Analysis

The General Fund showed an increase in fund balance in calendar year 2009 of \$6,589, from \$219,821 to \$226,410. This compares to an \$8,334 increase in fund balance during calendar year 2008. The overall change in fund balance in calendar year 2009 was due to normal operations (mainly interest income exceeding administrative and general expenditures). The change during 2009 compared to 2008 was mainly due to an increase in professional fees.

Intermediary Relending Program Revolving Fund Analysis

The Intermediary Relending Program Revolving Fund showed a decrease in fund balance in calendar year 2009 of \$10,250, from \$276,465 to \$266,215. This compares to a \$43,844 decrease in fund balance during calendar year 2008. The overall change in fund balance in calendar year 2009 was due to normal operations (mainly interest income being less than loan related administrative and general expenditures and note payable debt service). The change during 2009 compared to 2008 was mainly due to more interest income received on notes receivable and the expensing of uncollectible notes receivable in 2009.

Budgetary Highlights/Capital Assets

The Consortium does not adopt a financial budget and does not own any capital assets.

Debt Administration

At December 31, 2009, the Consortium has a promissory note with the USDA/Rural Development in the amount of \$249,846 (compared to the December 31, 2008 balance of \$264,184). The note is to be fully repaid in year 2025 and carries a 1% rate of interest. Additional information about this long-term debt is presented in Note 5 to the financial statements.

Economic Factors

The Lyon County Economic Development Consortium is dependent on the economic health of the Lyon County, Iowa businesses that have been loaned money (the ability of these businesses to make payments on their notes).

Contacting the Consortium's Financial Management

This financial report is designed to provide the citizens of Lyon County, borrowers, and creditors with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Wells at (712) 472-4888.

Lyon County Economic Development Consortium
Basic Financial Statements

Lyon County Economic Development Consortium
Statement of Net Assets
December 31, 2009

	<u>Governmental Activities</u>
Assets	
Cash	\$ 99,797
Cash – Debt Reserve	16,980
Cash – Loan Loss Reserve	40,000
Prepaid Insurance	348
Interest Receivable	1,082
Notes Receivable (Net of Allowance for Doubtful Accounts)	<u>337,254</u>
Total Assets	<u>495,461</u>
Liabilities	
Accounts Payable	2,797
Accrued Interest Payable	1,814
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Note Payable – USDA	14,482
Portion Due or Payable After One Year:	
Note Payable – USDA	<u>235,364</u>
Total Liabilities	<u>254,457</u>
Net Assets	
Restricted for:	
Intermediary Relending Program Revolving Purposes	14,594
Unrestricted	<u>226,410</u>
Total Net Assets	<u>\$ 241,004</u>

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Statement of Activities
Calendar Year Ended December 31, 2009

	Expenses	Program Revenues Charges for Service	Net (Expense) Revenue & Changes In Net Assets
Functions/Programs:			
Governmental Activities:			
Note Issuance Fees	\$ 1,050	1,350	300
Administration & General	7,652	0	(7,652)
Interest on Long-Term Debt	2,538	0	(2,538)
Total	\$ 11,240	1,350	(9,890)
General Revenues:			
Unrestricted Investment Earnings			20,672
Change in Net Assets			10,782
Net Assets Beginning of Year			230,222
Net Assets End of Year			\$ 241,004

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Balance Sheet
Governmental Funds
December 31, 2009**

	General Fund	Special Revenue Intermediary Relending Program Revolving Fund	Total
<u>Assets</u>			
Cash	\$ 36,542	63,255	99,797
Cash – Debt Reserve	0	16,980	16,980
Cash – Loan Loss Reserve	0	40,000	40,000
Prepaid Insurance	174	174	348
Interest Receivable	551	531	1,082
Due From Other Fund	0	3,207	3,207
Notes Receivable (Net of Allowance for Doubtful Accounts)	193,452	143,802	337,254
Total Assets	\$ 230,719	267,949	498,668
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to Other Fund	\$ 3,207	0	3,207
Accounts Payable	1,102	1,695	2,797
Deferred Revenue – Interest Income	0	39	39
Total Liabilities	4,309	1,734	6,043
Fund Balances:			
Reserved For:			
Debt Reserve	0	16,980	16,980
Loan Loss Reserve	0	40,000	40,000
Notes Receivable	188,678	140,943	329,621
Unreserved:			
Undesignated	37,732	68,292	106,024
Total Fund Balances	226,410	266,215	492,625
Total Liabilities and Fund Balances	\$ 230,719	267,949	498,668

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets
December 31, 2009**

Total Governmental Fund Balances (page 12)	\$ 492,625
---	-------------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Other long-term assets (interest receivable for calendar year 2009) that produce revenues are not available to pay current period expenditures and, therefore, are deferred in the Governmental Funds.

39

Long-term liabilities (accrued interest payable and note payable – USDA for calendar year 2009) are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.

(251,660)

Net Assets of Governmental Activities (page 10)	\$ 241,004
--	-------------------

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Calendar Year Ended December 31, 2009

	General Fund	Special Revenue Intermediary Relending Program Revolving Fund	Total
Revenues:			
Interest on Notes Receivable and Bank Accounts:			
I.R.P. Related Notes Receivable	\$ 0	9,752	9,752
Non I.R.P. Related Notes Receivable	10,189	0	10,189
Interest Bearing Bank Accounts	194	536	730
Loan Application & Documentation Fees	450	900	1,350
Total Revenues	10,833	11,188	22,021
Expenditures:			
Bank Charges	6	27	33
Insurance	551	551	1,102
Professional Fees (Audit)	2,175	2,175	4,350
Legal/Filing Fees (Note Receivable Issuances)	692	775	1,467
Filing Fees (Audit/Loan Recording Renewal)	0	110	110
Financial/Loan Advisor Fees	820	820	1,640
Notes Payable Interest	0	2,642	2,642
Notes Payable Principal	0	14,338	14,338
Total Expenditures	4,244	21,438	25,682
Net Change in Fund Balances	6,589	(10,250)	(3,661)
Fund Balances: January 1, 2009	219,821	276,465	496,286
Fund Balances: December 31, 2009	\$ 226,410	266,215	492,625

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities
Year Ended December 31, 2009

Net Change in Fund Balances - Total Governmental Funds (page 14)	\$ (3,661)
---	--------------------

Amounts reported for governmental activities in the Statement of Activities are different because:

Because some revenues will not be collected for several months after the Consortium's year end, they are not considered available revenues and are deferred in the Governmental Funds. The resulting timing difference is as follows:

Notes receivable interest	1
---------------------------	---

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds as follows:

Interest on long-term debt	104
----------------------------	-----

Current year repayment of long-term liabilities is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets

14,338

Changes in Net Assets of Governmental Activities (page 11)	<u><u>\$ 10,782</u></u>
---	-------------------------

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Notes to Financial Statements
December 31, 2009

1) Summary of Significant Accounting Policies

The Lyon County Economic Development Consortium (LCEDC) was organized and incorporated under Section 504A of the Code of Iowa as a Non-Profit Corporation on May 17, 1989 as a separate entity for all legal purposes. The organization consists of representatives from Lyon County and the various communities within the political boundary of Lyon County, Iowa, joined together for the implementation of economic development projects within the County. Local governments of the area jurisdiction entered into the Consortium for intergovernmental cooperation by the virtue of the powers granted them by Chapter 28E of the Code of Iowa.

The LCEDC's mission of implementing economic development projects within Lyon County is being accomplished by the lending of monies to businesses located in Lyon County, Iowa, for various economic development projects at a reasonable rate of interest. The economic conditions in Lyon County, Iowa, and the surrounding area of Northwest Iowa, Southwest Minnesota, and Southeast South Dakota affect significantly on the businesses abilities to make the amortized note receivable payments to the LCEDC.

The financial statements of the LCEDC have been are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Lyon County Economic Development Consortium has included all funds, organizations, agencies, boards, commissions, and authorities. The LCEDC has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the LCEDC are such that exclusion would cause the LCEDC's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the LCEDC to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the LCEDC. The LCEDC has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all the activities of the Consortium. For the most part, the effect of interfund activity has been removed from these statements. Consortium activities currently are supported primarily by interest received on loans issued to businesses, investment interest, loan application and documentation fees.

The Statement of Net Assets presents the Consortium's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets. The Consortium has no capital assets and therefore, no amount is invested in capital assets, net of related debt.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The Consortium's net assets are restricted through requirements of the U.S.D.A./Rural Development.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Consortium reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Consortium. Contributions agreed to by the different communities and Lyon County are accounted for in this fund, as well as all interest received on notes made to development projects that are not accounted for through the Intermediary Relending Program, interest received on monies on deposit (not required to be included in the Intermediary Relending Program Revolving Fund) and other income not allocated by law or contractual agreement to the Intermediary Relending Program Revolving Fund. From the fund are paid the general operating expenditures needed to operate the Consortium and fixed charges that are not paid from the Intermediary Relending Program Revolving Fund.

Special Revenue: Intermediary Relending Program Revolving Fund – The Intermediary Relending Program Revolving Fund (I.R.P.) accounts for all funds derived from the I.R.P. agreement with the U.S. Department of Agriculture/Rural Development, the Consortium's local match to the I.R.P., the subsequent lending for economic development projects, the receipt of principal and interest on notes receivable paybacks from these projects, bank account interest earned on this money, related loan and application and documentation

fees, and the disbursement of funds for allowable costs and eventual payment of principal to the U.S.D.A./Rural Development for the monies borrowed through the I.R.P.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Consortium considers revenues to be available if they are collected within 60 days after year end.

To properly account for the notes receivable, the notes receivable are also shown on the LCEDC's Balance Sheet (Governmental Funds), even though some of the notes receivable balance is not considered to be a current asset. Although all the notes receivable balance is measurable, some of the notes receivable balance is not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within sixty days after the end of the calendar year). The account, fund balances - reserved for notes receivable, represents the amount of the notes receivable and the resulting fund balance that is not available within the current period or soon enough thereafter to be used to pay liabilities of the current period (see Note 4 for notes receivable amounts).

Interest and loan application/documentation fees are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Consortium.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt is recorded as an expenditure only when payment is due.

The Consortium maintains its financial records on the cash basis. The financial statements of the Consortium are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash

The Consortium has its cash invested in interest bearing bank accounts located in banking institutions within Lyon County. The Consortium also earns interest on direct notes receivable (see Note 4). The interest earned on the cash accounts and notes receivable is recorded and maintained in the appropriate funds.

Restricted Assets

Funds set aside for deposits are classified as restricted assets as required by Intermediary Loan Program.

Prepaid Insurance

Prepaid insurance represents insurance coverage that will benefit a future calendar year. Prepayments are recorded as expenses/expenditures when utilized rather than when paid for.

Due from and Due to Other Fund

During the course of its operations, the Consortium occasionally has transactions with bank accounts that are designated as a part of the General Fund or the Intermediary Relending Program Revolving Fund, but the related disbursement should have been paid from the other fund. The Consortium occasionally loans money between the two funds. To the extent that these transactions had not been properly transferred from a General Fund bank account to an Intermediary Relending Program Revolving Fund bank account as of December 31, 2009, a balance of an interfund amount receivable and payable has been recorded in the fund financial statements. There is no interest being charged between the funds on any of the interfund transactions or the loan.

Capital Assets

The Consortium does not own any capital assets.

Deferred Revenue – Interest Income

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue – interest consists of accrued interest receivable not collected within sixty days after year end.

Long-Term Liabilities

In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities column of the Statement of Net Assets.

Fund Equity

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

E. Budget

The LCEDC's officials do not annually adopt a financial budget for its financial activities. No proposed Intermediary Relending Program Revolving Fund budget was submitted to the U.S.D.A./Rural Development for calendar year 2009 as necessitated by the Intermediary Relending Program reporting requirements. This budget is intended to meet Intermediary Relending Program requirements only, not to be used as a financial analysis tool. Accordingly, there is no reporting or disclosure of any budget figures for calendar year 2009.

2) Cash (Bank Deposits/Investments)

The LCEDC's deposits in banks at December 31, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The LCEDC is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the LCEDC's officials/members; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The LCEDC has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3) Due from and Due to Other Funds

The detail of interfund receivables and payables at December 31, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Intermediary Relending Program Revolving	General	\$ 3,207

The \$3,207 of interfund receivables and payables is for insurance premiums (\$1,032) and professional audit fees (\$2,175) that were paid from Intermediary Relending Program Revolving Fund bank accounts but should have been paid from General Fund bank accounts.

4) Notes Receivable

The LCEDC lends money for various economic development projects to businesses located within Lyon County, Iowa.

The notes receivable issued carry an interest rate of 5.5%. The terms of the notes are generally amortized for pay back over five to ten years. The amounts shown on the balance sheet as of December 31, 2009 reflect the amounts due on those notes receivable as of that date and are computed as follows:

	General Fund	I.R.P. Revolving Fund	Total (Memorandum Only)
Balance on December 31, 2008	\$ 202,126	139,834	341,960
New Notes Issued:			
Calendar Year 2009	50,000	85,000	135,000
Payments on Principal:			
Calendar Year 2009	(58,674)	(81,032)	(139,706)
Allowance for Doubtful Accounts:			
Calendar Year 2009 Bad Debt	0	0	0
Balance on December 31, 2009	\$ 193,452	143,802	337,254
Less Portion Received by February 28, 2010	(4,774)	(2,859)	(7,633)
Non-Current Notes Receivable	\$ 188,678	140,943	329,621

The following are the scheduled amounts of notes receivable principal coming due for the calendar years ending:

	General Fund	I.R.P. Revolving Fund	Total (Memorandum Only)
December 31, 2010	\$ 30,641	19,643	50,284
December 31, 2011	24,394	18,660	43,054
December 31, 2012	24,031	18,308	42,339
December 31, 2013	23,600	16,452	40,052
December 31, 2014	25,868	17,380	43,248
December 31, 2015 and After	64,918	53,359	118,277
	<u>\$ 193,452</u>	<u>143,802</u>	<u>337,254</u>

Loans are carried as notes receivable until deemed uncollectible. As of December 31, 2009, no allowance for doubtful accounts has been recorded. As of December 31, 2009, there was \$706 in I.R.P. Revolving Fund notes receivable principal payments (which is from one note that is over ninety days behind) and \$1,246 in General Fund notes receivable principal payments (which is made up of two notes that were less than ninety days behind) that were due but had not been paid and no formal extension had been approved by the LCEDC's officials.

5) Notes Payable

The LCEDC had borrowed \$400,000 from the U.S.D.A./Rural Development Intermediary Relending Program. Under terms of the I.R.P. Loan Agreement dated April 10, 1995, interest at the rate of 1% per annum on the unpaid balance is due on April 10 of each year, with principal payments starting on April 10, 1999 payable in 27 equal annual amortized payments with any remaining balance due and payable 30 years from the date of the note.

During 2009, \$2,642 was paid for interest due and payable and \$14,338 in principal amount was retired on this note payable. The current year principal and interest, as well as prior years' principal and interest, has all been paid by the Intermediary Relending Program Revolving Fund.

The Consortium has pledged as collateral for the note all assets of the Intermediary Relending Program Revolving Fund and all collateral obtained by the Consortium as a result of Intermediary Relending Program activities.

A summary of the Consortium's December 31, 2009 Intermediary Relending Program indebtedness is as follows:

Calendar Year Ending December 31	Interest Rates	Principal	Interest	Total
2010	1%	14,482	2,498	16,980
2011	1%	14,626	2,354	16,980
2012	1%	14,773	2,207	16,980
2013	1%	14,920	2,060	16,980
2014	1%	15,069	1,911	16,980
2015-2019	1%	77,637	7,263	84,900
2020-2024	1%	81,598	3,302	84,900
2025	1%	16,741	167	16,908
Total		\$ 249,846	21,762	271,608

6) Changes in Long-Term Liability

A summary of changes in the long-term liability for the calendar year ended December 31, 2009 is as follows:

	Intermediary Relending Program Notes Payable
Balance January 1, 2009	\$ 264,184
Additions	0
Decreases	(14,338)
Balance December 31, 2009	\$ 249,846

7) Debt Reserve and Loan Loss Reserve Accounts

The I.R.P. Pledge and Security Agreement on the U.S.D.A./Rural Development Intermediary Relending Program loan requires that the Consortium establish a debt reserve account within the I.R.P. Revolving Fund at the rate of \$1,698 annually starting April 10, 1996 until the debt reserve account reaches the sum of \$16,980 or such higher amount agreed to with the U.S.D.A./Rural Development and shall be resumed at any time when necessary because of disbursements from the debt reserve account to restore it to the agreed upon sum. Withdrawals from the debt reserve account shall be used solely for the purpose of paying the interest on and the installments of principal of the I.R.P. promissory note when there are insufficient funds in the general operating account of the I.R.P. Revolving Fund to meet the payments then due.

The agreement also requires an annual transfer to a loan loss reserve account within the I.R.P. Revolving Fund equal to a rate of not less than 1% of the outstanding principal balance of recipients' loans with the initial transfer made as of April 10, 1996. Annual transfers will be made until the balance of such account reaches \$40,000 or such higher amount later agreed to with the U.S.D.A./Rural Development and shall be resumed at any time when necessary because of disbursements from the loan loss reserve account to restore it to the agreed upon sum. Withdrawals from the loan loss reserve account shall be used only for the purpose of transfers to the general operating account of the I.R.P. Revolving Fund of amounts not more than the amount of actual loan losses and for the purpose of paying the interest on and the installment of principal of the I.R.P. promissory note when there are insufficient funds in the general operating account of the I.R.P. Revolving Fund and the debt reserve account to meet the payments then due.

Investment income derived from each account shall remain a part of said account and shall be used only for the purposes for which such accounts may be used except when the amounts in the debt reserve account exceed \$16,980 and/or the amount in the loan loss reserve account exceed \$40,000 (whether due to investment earnings or other deposits from any source) then any and all of such excess shall accrue to and be deposited in the general operating account of the I.R.P. Revolving Fund.

The debt reserve and loan loss reserve accounts are reflected in the Statement of Net Assets by reporting the cash set aside for these accounts separately. These accounts are reported in the Governmental Funds Balance Sheet by showing the cash set aside for these accounts separately and by also reserving the appropriate fund balance for each account. The December 31, 2009 balance in the debt reserve account was \$16,980 (shown as fund balance – reserved for debt reserve) and the December 31, 2009 balance in the loan loss reserve account was \$40,000 (shown as fund balance – reserved for loan loss reserve).

The debt reserve and loan loss reserve accounts for 2009 were set up by bookkeeping entries and by trying to make sure \$56,980 in cash was always maintained in the Intermediary Relending Program Revolving Fund at all times. During calendar year 2009, the required reserve amounts maintained were not sufficient from May 4, 2009 to August 25, 2009 (the amount of cash in the Intermediary Relending Program Revolving Fund was below the \$56,980 level).

8) Risk Management

The Lyon County Economic Development Consortium is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Consortium's general liability and wrongful acts for officials liability contributions to the risk pool are recorded as expenditures from its General Fund and I.R.P. Fund at the time the insurance coverage is utilized by the Consortium. The Consortium's annual cash basis contribution to the Pool for the calendar year ended December 31, 2009 was \$902.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Consortium does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2009, no liability has been recorded in the Consortium's financial statements. As of

December 31, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual operating casualty contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Consortium also carries commercial insurance purchased from another insurer for coverage associated with fidelity bonding in the amount of \$300,000 (\$216 was paid on a cash basis in premiums during 2009 for this coverage). The Consortium assumes liability for any deductibles and claims in excess of the coverage limitations. Settled claims resulting from this risk have not exceeded any commercial insurance coverage that was in place in any of the past three calendar years (there were no claims at all during the last three years).

9) Commitments

In November 2009, the Board approved that a \$24,000 note receivable be issued from the Intermediary Relending Program Revolving Fund and a \$36,000 note receivable be issued from the General Fund.

10) Subsequent Events

Events that have occurred subsequent to December 31, 2009 include the following:

- (a) In January 2010, a \$24,000 note receivable was issued from the Intermediary Relending Program Revolving Fund. The note receivable carries a 5.5% interest rate and is to be paid back over 10 years.
- (b) In January 2010, a \$36,000 note receivable was issued from the Intermediary Relending Program Revolving Fund. The note receivable is to carry a 5.5% interest rate and is to be paid back over 10 years. The November 2009 Board minutes approved this note receivable to be issued from the General Fund but this note receivable was issued from the Intermediary Relending Program Revolving Fund.

11) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

Phone : (712) 472-2549
Fax : (712) 472-2540
Email : ssdnrr@hickorytech.net

Independent Auditor's Report on **Internal Control over Financial Reporting and on Compliance and Other Matters** **Based on an Audit of Financial Statements Performed in Accordance with** **Government Auditing Standards**

To the Members/Officials of the Lyon County Economic Development Consortium:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lyon County Economic Development Consortium (LCEDC) as of and for the year ended December 31, 2009, which collectively comprise the Consortium's basic financial statements listed in the table of contents, and have issued our report thereon dated May 16, 2011. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LCEDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the LCEDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LCEDC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Rock Rapids Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Rock Rapids Municipal Utilities' internal control described in the accompanying Schedule of Findings as items 09-A, C, D, E, and F to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item 09-B to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LCEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Consortium's operations for the year ended December 31, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Consortium. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The LCEDC's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Consortium's responses, we did not audit the LCEDC's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members/officials and citizens of members of the Lyon County Economic Development Consortium and other parties to whom the LCEDC may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by management of the LCEDC during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

May 16, 2011

Lyon County Economic Development Consortium

Schedule of Findings

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

Other Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

09-A Segregation of Duties – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same individual. This segregation of duties helps to prevent losses from individual error or dishonesty and therefore maximizes the accuracy of the Consortium's financial statements. We noted that generally one individual has control over most business transactions (banking transactions, accounting functions, etc...). Although dual check signers are required for all checks over \$500, this policy was not done for any checks written in 2009. Also, financial duties are not rotated at any time during the year.

Recommendation – We realize that with no office employees and only using volunteers, segregation of duties is difficult. However, the Consortium should review its operating procedures to obtain the maximum internal control possible under the circumstances. To provide additional control, the officials should review financial transactions, reconciliations and reports. Such reviews should be evidenced by initials or signature of the reviewers and the dates of the reviews. Dual check signers should be required on all checks over \$500. Also, financial duties should be rotated for a period of time during the year.

Response – We are attempting to review the financial records regularly. We will make an earnest effort to evidence the reviews by initialing and dating the reviews. We will work on getting checks to be dual signed when the checks are over \$500.

Conclusion – Response accepted. It is important that you attempt to implement this recommendation.

09-B Manual Records Storage/Off-Site Storage of Computer Data/Written Disaster Recovery Plan – The Consortium does not have any standard policies or procedures regarding storage of manual records at more than one location or for off-site storage of computer backup data. The Consortium does not have a written disaster recovery plan.

Recommendation –Manual records should be evaluated for importance and duplicate copies stored at an additional location. Computer backups need to be done for all important computer data on a regular basis and the computer backups should be stored at an off-site location. A written disaster recovery plan should be considered and adopted.

Response – We will attempt to implement this recommendation.

Conclusion – Response accepted. It is important that this recommendation is evaluated and implemented.

Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009

- 09-C Financial Reporting – During the audit, we identified material amounts of assets, fund balances/net assets and expenses/expenditures that were not recorded properly. Adjustments were subsequently made by the Consortium to properly include these amounts in the financial statements.
- Recommendation – The Consortium should implement procedures to ensure all assets, fund balances/net assets and expenses/expenditures are properly recorded and classified for the Consortium’s financial statements.
- Response – We will attempt to implement your recommendation.
- Conclusion – Response accepted. Please do address this recommendation.
- 09-D Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.
- Recommendation – LCEDC management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. LCEDC management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.
- Response – We will address your recommendation. Please do address this recommendation.
- Conclusion – Response accepted.
- 09-E Note Receivable Files (General Fund Notes) – Several notes receivable in the General Fund do not have evidence of current insurance.
- Recommendation –The Consortium should implement procedures to monitor that insurance is current and adequate for all notes receivable.
- Response – We will attempt to implement your recommendation.
- Conclusion – Response accepted. It is important that insurance coverage should be monitored and kept current.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

09-F Bank Signature Card – The Consortium needs to remove from the authorized signers' list at one bank individuals who are no longer authorized to make disbursements. The Consortium needs to get all bank accounts updated to include all properly authorized signers.

Recommendation – The Consortium needs to correct the authorized bank accounts signers' list to allow only all eligible current officials to make transactions. Procedures need to be established to ensure that an individual who is no longer authorized to make financial transactions is immediately removed from all authorized signers' lists and that any new individuals are properly authorized to do so on the signers' lists.

Response – We will implement this recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

09-A-Non-Compliance Ultimate Recipients Insurance Coverages – We noted that the Consortium does not have proof of insurance on several of the businesses that have outstanding notes receivable to the Consortium's Intermediary Relending Program (IRP). This issue is a violation of the Intermediary Relending Program loan agreement. The Consortium should maintain current proof of insurance as a normal practice regardless of the Intermediary Relending Program loan agreement.

Recommendation – Proof of insurance on all businesses that have outstanding notes receivable to the Consortium should be brought up-to-date and kept current. A system needs to be developed that ensures proof of insurance is obtained before notes receivable are formally issued and that current, accurate insurance is being maintained and monitored regularly. If monitoring of this issue is to cease once a note receivable drops below a certain level, the Board and the U.S.D.A./Rural Development must formally approve this.

Response – We will work toward fully implementing your recommendation.

Conclusion – Response accepted. It is very important that this recommendation is implemented.

09-B-Non-Compliance Fidelity Bond Coverage – The Consortium carries fidelity bond insurance coverage on the individual that is the Secretary/Treasurer and Financial/Loan Advisor for the Consortium only. None of the other officials (President and Vice-President) are covered by fidelity bond insurance. This appears to be a violation of the Intermediary Relending Program loan agreement. The Consortium should consider carrying fidelity bond insurance coverage on these other officials, regardless of loan agreement requirements, at all times.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

Recommendation – The Consortium should discuss with the U.S.D.A./Rural Development as to who has to have fidelity bond insurance coverage to be in compliance with the Intermediary Relending Program loan agreement. The Consortium should get this in writing. The level of fidelity bond insurance coverage the Consortium needs to meet the Intermediary Relending Program loan agreement should be viewed as the minimum level needed. The individuals covered and the amount of coverage acquired should be analyzed annually to ensure that coverage is adequate for current operations.

Response – We will address this recommendation.

Conclusion – Response accepted. Please do address this recommendation.

09-C-Non-Compliance Federal Financial Assistance Program – The following instances of non-compliance with the Intermediary Relending Program were noted (in addition to the ultimate recipients insurance coverages non-compliance and fidelity bond coverage non-compliance already discussed):

1. The Consortium is late in issuing the following report to the U.S.D.A./Rural Development:
 - a. The audit was not issued within 90 days of the audit period. However, the U.S.D.A./Rural Development has accepted that audited financial statements will be filed late every year as a cost saving measure for the Consortium.
2. The Consortium is currently waiving on all notes receivable the following provisions of the work plan submitted to the U.S.D.A./Rural Development:
 - a. Late payment charges of 10%.
 - b. The loan servicing fee of .5% per annum on the unpaid balance of the loans as determined at five year anniversary intervals.
 - c. Deposit fees of 1½% of I.R.P assistance requested.

The Consortium did obtain written approval from the U.S.D.A./Rural Development to waive these provisions on an as-needed basis. However, this approval was contingent upon the Consortium adequately documenting in each ultimate recipient's file the circumstances for the waiver or submitting a revised written work plan. There is no documentation in any ultimate recipient's file that supports the circumstances for the waiver of these provisions and no proof that a revised written work plan was submitted.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

3. The Consortium is late in issuing the following reports to the U.S.D.A./Rural Development:
 - a. The Forms RD 1951-4 were not filed for June 30, 2008, December 31, 2008, June 30, 2009 and December 31, 2009.
 - b. Proposed IRP fund budgets were not filed for 2008 or 2009.
 - c. At the end of 2009, the Consortium did not provide a proposed IRP fund budget for 2010 and a summary of the progress of the IRP and its loans.
4. The Consortium did not properly report to the U.S.D.A./Rural Development all instances when an ultimate recipient was more than ninety days past due with a payment.
5. The Consortium is required to maintain minimum amounts in cash at all times for debt reserve and loan loss reserves under the Intermediary Relending Program's Pledge and Security Agreement. During 2009, the Consortium was required to maintain in the Intermediary Relending Program Revolving Fund \$40,000 in cash as a loan loss reserve and \$16,980 in cash as a debt reserve. The Consortium's cash balances in the Intermediary Relending Program Revolving Fund during calendar year 2009 from May 4th to August 25th were below the amount of \$56,980 required by the I.R.P. Pledge and Security Agreement.

Recommendation – The Consortium should consult with Kim Clay of the U.S. Department of Agriculture/Rural Development concerning the disposition of these matters.

Response – We are attempting to get all required information current and to provide all the necessary information that is requested to the U.S.D.A./Rural Development in an accurate manner.

Conclusion – Response accepted. Please address these Intermediary Relending Program issues.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

Other Findings Related to Required Statutory Reporting:

- 09-1 Certified Budget – The Consortium does not adopt a formal financial budget.
- 09-2 Questionable Expenditures – No reportable expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 09-3 Travel Expense – No expenditures of Consortium money for travel expenses of spouses of Consortium officials/members were noted.
- 09-4 Business Transactions – No business transactions between the LCEDC and LCEDC officials/members were noted.
- 09-5 Bond Coverage – Please see finding related to the financial statements 09-B-Non-Compliance for comment.
- 09-6 Board Minutes – Most of the disbursements, regardless what the amount was on any particular disbursement, during calendar year 2009 were never approved by the Board in the minutes.

Several items were noted which should have been approved by the Board but were not formally approved in the minutes. No formal Board approval was noted in the minutes for amending one of the notes receivable terms and amortization schedule. Additionally, there were three loans which were deemed uncollectible in prior years; however, there was not official approval documented in the minutes by the Board to write off the amounts which are deemed uncollectible and no longer included in the financial statements as an allowance for doubtful accounts as of December 31, 2009. When a note receivable that has been offered to a business is not accepted by the business or when the offer for a note receivable has been withdrawn by the Board, there is not always mention of this in the minutes. Applications that are not approved are no longer assessed the application fee. This change was never formally approved in the minutes. Also, there was one loan in 2008 and one loan in 2009 which were approved in the Board minutes to be paid from the General Fund; however, both loans were actually disbursed in the year following approval (2009 and 2010, respectively) from the I.R.P. Fund. No action has been taken on these errors.

The Consortium is required to have at least four Board meetings per year per the Consortium’s adopted by-laws, but the Consortium only held three Board meetings in 2009. The Board minutes should be more detailed than the minutes currently are. Minutes

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

of prior meetings are not always being approved. The Board minutes were not published as required. The Consortium Board minutes were not properly signed by the individual who is the Consortium's Secretary/Treasurer and Financial/Loan Advisor, by the Board President or by any other Board members.

Recommendations – Even though the treasurer is given authority to automatically pay bills that are under \$500, the Board should review and approve all bills at the Board meetings.

The Board needs to approve changes or amendments made to notes receivable in the minutes. The Board needs to formally approve in the Board minutes the write off of all notes receivable deemed uncollectible. When an offered note receivable is not accepted or the offer has been terminated by the Board, the declining/termination of this note receivable offering should be noted in the Board minutes. The Board needs to approve in the minutes what the policy is going to be regarding the application fee. All notes receivable need to be distributed from the Fund which the Board approves and is documented in the minutes.

The Board should be in compliance with the Consortium's by-laws regarding the number of meetings to be held each year. Please attempt to create and retain more detailed minutes. Minutes of the prior meeting should always be formally approved. Additionally, the minutes should always be published in accordance with House File 808. The Board should have the minutes of its meetings properly signed by the individual who is the Consortium's Secretary/Treasurer and Financial/Loan Advisor and another Board official/member as soon as the Board approves the minutes. Signing of the minutes is needed to attest to the accuracy of the minutes.

Response – We will work toward implementing most of these recommendations regarding the Board minutes. We will consider the publication of minutes requirement.

Conclusion – Response accepted. Please attempt to implement all of these recommendations.

09-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Consortium's investment policy were noted.

09-8 Proof of Tax Exempt Status – The Consortium has not filed for proof of tax exempt status as issued by the Internal Revenue Service. The Consortium is not filing Form 990.

Recommendation – The Consortium should work on getting tax exempt status recognition from the Internal Revenue Service. The Consortium needs written documentation that Form 990 is not required; otherwise, Form 990 should probably be filed.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2009**

Response – We were working on finalizing some issues first. Once the issues are resolved, we will file the necessary paperwork to get tax exempt status approval. We want to file the application in a manner and a time frame that is least costly for the Consortium. We will file a Form 990 if the Internal Revenue Service informs us that filing this form is required.

Conclusion – Response accepted. Receiving proof of tax exempt status is very important.

09-9

Electronically Retained Check Images – The back (endorsement) side of electronically retained check images of checks that have cleared the bank are not being received and maintained as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – The Consortium should be receiving and maintaining the back (endorsement) side of electronically retained check images of checks that have cleared the bank.

Response – We will comply with the Iowa Code in the future.

Conclusion – Response accepted.

09-10

Secretary of State Reporting – House File 808 required 28E entities with joint boards to submit in electronic format a report with the Iowa Secretary of State. The first report was due by July 1, 2008. The Consortium did not submit the required reports on a timely basis to the Iowa Secretary of State. Following submission of the initial report, each entity shall submit a report by April 1 of every odd numbered year beginning in 2009. The 2009 report also was not submitted on a timely basis to the Secretary of State.

Recommendation – The Consortium should submit the required information to the Secretary of State on a timely basis.

Response – The required information has been submitted in May 2011. We will make sure each report is submitted timely in the future.

Conclusion – Response accepted.

Lyon County Economic Development Consortium

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor/Reviewer
Carmen Austin, CPA, Assistant Auditor
Curt Robison, Assistant Auditor
Craig Hoekstra, Assistant Auditor

De Noble & Company PC
Certified Public Accountants